

Answer **all** questions.

- 1 The following balances were extracted from the books of Ruth Pte Limited on 31 July 2022.

	\$
Machinery at cost	196 000
Motor vehicles at cost	84 000
Accumulated depreciation:	
Machinery	98 000
Motor vehicles	30 240
Sales revenue	337 000
Sales returns	12 400
Cost of sales	93 300
Wages and salaries	79 960
Machinery repairs	7 600
General expenses	37 700
Interest income	1 000
Trade receivables	21 000
Trade payables	12 480
Cash at bank (debit balance)	24 300
Allowance for impairment of trade receivables	600
Inventory	41 320
Share capital, 100 000 ordinary shares	100 000
Retained earnings at 1 August 2021	18 260
Additional information	

- 1 General expenses, \$250, were prepaid and wages and salaries, \$460, were owing.
- 2 Interest income owing to the company was \$800.
- 3 Machinery repairs, \$2000, had been incorrectly debited to the machinery account.
- 0 4 Machinery is depreciated at 25% per annum using the straight-line method.
Motor vehicles are depreciated at 20% per annum using the reducing-balance method.
- 5 The allowance for impairment of trade receivables is to be maintained at 5% of trade receivables.
- 6 The company declared a dividend of \$0.10 per share. The dividend will be paid on 1 September 2022.

REQUIRED

- (a) Prepare the statement of financial performance for the year ended 31 July 2022.
[10]
- (b) Prepare the statement of financial position as at 31 July 2022.
[10]

[Total: 20]

- 2 Javier runs an advertising agency. His business has a financial year end of 31 July. The following information has been provided.

	\$
Account balances at 1 August 2021	
Utilities payable	582
Rental income receivable	600
 During the year ended 31 July 2022	
Payments made for utilities	9500
Rental income received	8000

Additional information

- 1 Included in the payments for utilities was the sum of \$384 in respect of August 2022.
- 2 Rental income, \$700, had not been received on 31 July 2022.

REQUIRED

- (a) Calculate the amounts (showing all workings) to be included in the statement of financial performance of the business for the year ended 31 July 2022 for:
 - (i) utilities expense
[4]
 - (ii) rental income
[4]
- (b) State the accounting theory which is being applied when calculating the amounts for utilities expense and rental income for the year ended 31 July 2022.
[1]
- (c) State **two** ways of internal control a business may use to safeguard cash balances.
[2]
- (d) State **two** types of item paid or received directly through the bank for which a bank statement may be used as proof.
[2]

[Total: 13]

- 3 The following information relates to Lynette's business at 30 September 2019, 2020 and 2021.

	2019	2020	2021
	\$	\$	\$
Current assets			
Inventory	40 625	45 800	59 850
Trade receivables	27 000	35 700	44 900
Cash at bank	<u>13 125</u>	<u>8 100</u>	<u>—</u>
	<u>80 750</u>	<u>89 600</u>	<u>104 750</u>
Current liabilities			
Trade payables	20 000	27 950	27 750
Cash at bank	—	—	3 050
Expenses payable	3 750	4 800	3 045
Current portion of long-term borrowings	<u>—</u>	<u>—</u>	<u>22 500</u>
	<u>23 750</u>	<u>32 750</u>	<u>56 345</u>
Current ratio	3.40	?	?
REQUIRED			

- (a) Explain what is meant by the liquidity of a business.
[2]
- (b) Calculate the current ratio of the business for each of the two years ended 30 September 2020 and 2021. Show your answer to **two** decimal places.
[2]
- (c) Evaluate the trend in liquidity of the business over the three years ended 30 September 2019, 2020 and 2021. Use the given information and your answer to (b).
[6]

The business profit has remained the same over the three years ended 30 September 2019, 2020 and 2021.

REQUIRED

- (d) Advise Lynette why the liquidity of the business has changed even though profit has remained the same over the three years.
[2]

Lynette is considering comparing the profitability of her business with that of a competitor.

REQUIRED

(e) Name **one** profitability ratio which Lynette could use. [1]

[Total: 13]

4 Jason runs a trading business. He has provided the following information.

- 1 All sales are made on credit.
- 2 The business's terms of trade with customers are for payment in full within 30 days.
- 3 No discount is offered for early settlement.
- 4 The business's trade receivables collection period is 35 days on average.

Jenny is a prospective new customer. The following information has been made available about Jenny's business.

- 1 Jenny operates her business overseas.
- 2 Jenny opened her business selling mobile phone accessories nine months ago. As a successful business, she expects to double her sales revenue within one year.
- 3 Jenny's business pays its suppliers on average within 36 days.

Jenny can provide details of two of her current suppliers who are willing to give a reference as to her reliability and payment history.

REQUIRED

- (a) Recommend whether or not Jason should agree to make sales on credit to Jenny. Justify your decision with **three** reasons. [7]

Additional information

The following transactions took place during July 2021 with a credit customer, Tam.

2021

July

- 7 Goods, \$900, were supplied to Tam
- 14 Tam returned faulty goods, cost \$300
- 20 Tam paid Sim \$350
- 28 Tam paid Sim the outstanding balance on his account by cheque
- 30 The bank returned Tam's cheque due to insufficient funds

The balance on Tam's account was still outstanding at the end of Lim's business financial year on 31 December 2021. Lim decided to write this balance off in full.

REQUIRED

- (b) Prepare the journal entry to write off the outstanding balance at 31 December 2021. A narration **is** required. [4]
- (c) Explain why a business may decide to make an allowance for impairment of trade receivables. [2]
- (d) Name **one** accounting theory which is applied when making an allowance for impairment of trade receivables.

[1]

[Total: 14]

End of Paper

